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SUBJECT: SCENESETTER FOR SENATOR HAGEL'S OCT 15-17 VISIT TO JAPAN

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SUMMARY  
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¶1. (SBU) The situation you will find in Japan is one of continued political uncertainty, despite the recent election of a new government. Newly-elected Prime Minister Taro Aso is a strong supporter of the U.S.-Japan Alliance and appears to favor a more robust Japanese contribution to international issues. However, he and the ruling Liberal Democratic Party (LDP) have their hands full as they balance the opposition's calls to dissolve the Diet and hold early elections with the need to address domestic economic problems and the growing global financial crisis, as well as to gain passage of the bill reauthorizing Japan's maritime refueling operations in the Indian Ocean in support of Operation Enduring Freedom. End Summary.

DOMESTIC POLITICS: ASO IS PM, ELECTIONS UNCERTAIN  
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¶2. (SBU) Former LDP Secretary General Taro Aso became the Prime Minister of Japan on September 24, succeeding Yasuo Fukuda, who, like his predecessor, former Prime Minister Abe, resigned unexpectedly amid considerable political difficulties and declining support rates. Aso unveiled his new Cabinet lineup the same day, re-appointing a handful of ministers from the recently reshuffled Fukuda Cabinet and appointing the remainder primarily from among his close associates in the ruling Liberal Democratic Party (LDP). Nearly all of the new ministers are well-known to the public and have held ministerial portfolios in the past. However, Aso's Cabinet encountered problems almost immediately. The resignation of the Minister for Land, Infrastructure, and Transportation only five days after his appointment for repeated verbal missteps, along with allegations of political funds scandals involving two other new ministers, dominated the news during the initial weeks of Aso's administration.

¶3. (SBU) The main question being debated in Japan is whether Aso's team can help the LDP prevail in potential Lower House

elections against the Democratic Party of Japan (DPJ), led by Ichiro Ozawa. Support for Aso and his cabinet currently ranges from a low of 45 to a high of 53 percent, with the average approximately 10 points lower than former Prime Minister Fukuda when he launched his first Cabinet in 2007 and 20 points lower than former Prime Minister Abe's ratings in 2006. Aso out-polls DPJ leader Ozawa by a wide margin in surveys on the public's choice for Prime Minister, but polls also show the public would favor the DPJ over the LDP if elections were held today.

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ECONOMIC POLICY UNDER NEW ASO TEAM  
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14. (SBU) The country's economic situation is foremost in the minds of Japanese voters and businesses. Accordingly, in planning for the possibility of early Lower House elections, Prime Minister Aso is developing an economic campaign built around a central theme: "stimulating the stagnating Japanese economy." He is pushing a three-stage approach: use a supplemental budget to stimulate the economy in the short-term (the Lower House passed a 1.808 trillion yen supplementary budget on October 8); repair the country's fiscal balance in the medium-term; and increase Japan's potential economic growth rate through structural reform in the long-term. Japan's weakening economy (-3.0% growth in the second quarter annualized), slowing global growth, and world-wide financial turmoil has restricted Japan's ability to turn to its standard policy ) exporting its way out of

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the problem ) and as a result, Aso is putting a priority on short-term economic stimulus.

15. (SBU) Aso has also put aside, at least for now, the structural reform banner that former Prime Minister Koizumi once held high. The need to reform the pension and healthcare systems, to introduce greater competition into the economy, and to raise productivity have not gone away. However, the public is seen as being tired of structural reform and needs to be reassured.

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FOREIGN POLICY  
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16. (SBU) Prime Minister Aso has inherited a number of important foreign policy challenges from the preceding administration. As host and president of the G-8 Summit this year, Japan has made a number of pledges to contribute to a range of global issues, such as climate change and the environment, as well as international development and assistance. Responding to criticism both in and outside Japan, the Japanese government has been exploring ways to expand its contribution to Afghanistan beyond aid assistance and the refueling operations in support of OEF. Cabinet officials have expressed their intention to push for continued OEF refueling operations and reports indicate that the DPJ will not drag out debate, as they did last year, to reauthorize and continue this mission. In the region closer to home, relations with China and South Korea continue to flare up periodically due to unresolved historical and territorial disputes. North Korea's nuclear program and achieving a resolution to the issue of Japanese citizens kidnapped by the North remain at the top of Japan's foreign policy priorities.

17. (SBU) Aso has called on his ministers to build a "bright and strong" Japan. In response to DPJ leader Ozawa's oft-repeated assertions that Japanese foreign policy should be based on supporting UN sanctioned operations, Aso pointedly asked the DPJ during his opening presentation to the Diet where they believe Japan should put its trust -- on the U.S.-Japan Alliance or on an organization often swayed by a number of "small nations." His position is clear:

Japanese foreign policy should be based on the Alliance first and foremost.

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SECURITY POLICY  
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18. (SBU) As with foreign policy, the Aso administration is expected to maintain a similar position on Japan' security policy and the U.S.-Japan Alliance as did its predecessors. The successful September 25 arrival of the U.S.S. George Washington, the first and only nuclear-powered aircraft carrier to be deployed outside the United States, is a milestone in strengthening the Alliance. Prime Minister Aso was one of the signatories of the May 1, 2006 roadmap for the realignment of U.S. Forces in Japan.  
SCHIEFFER